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## PROBLEMS AND WAYS OF BUSINESS CLIMATE IMPROVING IN THE REGIONS<sup>1</sup>

*The presence of the specific conditions and development factors of small and medium-sized enterprises (SMEs) in the regions of the country supposes the differentiated state policy in order to maintain a favorable business climate in the field. The article presents the results of the research whose purpose was to determine the main issues and directions of the improvement of the business climate in the region, allowing to intensify the activities of local authorities in support of SMEs and considering the peculiarities of the territories development. The subject matter of this research is conditions and factors generating the business climate of the region. As a hypothesis, a direct connection between the prevailing regional business climate and the development of the quantitative indicators of active SMEs in the field was assumed. The study used the method of comparative analysis, sociological methods of focus groups, survey research, and statistical methods of ranking and grouping. The article theoretically substantiates the correctness of the usage of the "business climate" category as an object of study in the framework of such project as "Implementation of "Business Climate" as an Independent Rating", which makes possible the argumentation of the used methodology and concretization of the factors affecting the functioning of small and medium-sized businesses in the regions. This research confirmed a direct correlation between the established business climate in regions and quantitative indicators of the development of active small and medium-sized enterprises in the field. Such factors as "financial resources" and "government support" limited the development of business increasingly. In conclusion, a set of measures is provided to improve the business climate in the region both at national and regional levels of government. In addition, it was concluded that to generate a favorable business environment in the regions of Kazakhstan, it is necessary to make a smooth transition from a policy of "identification and punishment of conscientious entrepreneurs" to a policy of "prevention of violations and promotion of good business." The results of the research can be used in the work of the local executive authorities in order to improve business climate in the regions of country.*

**Keywords:** small and medium enterprises, entrepreneurship, enterprise environment, business environment, the business climate in the regions

### Introduction

In a fast-changing market conditions and the increasing competitive environment, more and more influence on the development of SMEs have the conditions and factors that develop in the external environment. The objective consequence is the need for skilled adaptation of the enterprises to the business environment and, in general, the use of more efficient management. Business environment contains a wide variety of factors that put forward as a major methodological problems, firstly, the clear identification of the categories "business environment" and "business climate", as well as related concepts and, secondly, the identification of the key factors that affect the formation of the business climate in a given region.

Meanwhile, neither domestic nor foreign economical science have formed a clear terminological raw in the field of business environment definition. Consequently, in the modern theory and practice of entrepreneurship, the methodology of the study of the regional factors affecting the business climate is not sufficiently developed. This is largely explained by the fact that the regional factors may remain static for a certain period of time; however, their impact on the operation of the business can be very dynamic. Moreover, various factors can create the business climate in the region with a different degree of intensity. Besides, the absence of common measurement methods of the business climate is caused by differences in objectives assessment of conditions and factors affecting the development of the business.

According to the abovementioned, the development and substantiation of a theoretical and methodological framework for assessing the business climate are acquiring more importance, which

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allow to identify the key factors affecting the development of SMEs, as well as identify ways of business climate improvement.

### **Interpretation of "business climate" category in economic science**

Hitherto, there are discussions of the conceptual apparatus and the assessment of the business climate in the domestic and foreign literature, so there is no single evidence-based approach to the definition and classification of factors affecting the business. First of all, it blurs the understanding of the overall picture of the situation with the business climate, and, secondly, does not provide a clear and unified framework to compare the conditions and factors in different countries. At the same time, this situation makes it difficult to develop an effective system of business support from the state.

The characteristic feature of the modern business theory is a multiplicity of concepts and frequent identification of categories of "business environment", "enterprise environment", "entrepreneurial climate", "investment climate", "business climate".

The most developed and tested concepts in this terminological series are "business environment" ("entrepreneurial environment") and the "business climate". Although, it should be noted that these categories are often used as synonyms in practice, as well as in scientific theory.

In our view, the most systematically important concept is "business environment". It should be noted that the modern research could define two approaches of business environment definition. Firstly, the business environment is understood as the external environment of a particular enterprise, which defines the external medium, the external environment and the immediate business environment synonymously. Authorities are considered as the subjects of the business environment, the organization interacts with them in the course of its operation; partners (suppliers of materials, capital, labor, dealers, etc.); competitors; consumers of goods and services, their associations and unions. Secondly, the business climate is treated as a business environment in a certain area (country, region, city). The synonymous here are the concepts of the business environment and business climate [1, p. 111].

There are also two scientific approaches with regards to the business environment definition. Some authors understand it as a set of optimal conditions that ensure citizens' economic freedom and promote the development of entrepreneurship in the country [2; 3, 4].

Other authors consider the business environment as a set of positive and negative factors affecting the business activity [7; 8].

The theoretical basis of the second approach are considered the earlier interpretations of scholars who, as a rule, understand the business environment in the economic literature either as the presence of conditions and factors that affect the company's performance and cause the need to remove them, or adjustment to them, or economic, social and legal conditions [9, p.527; 10, p. 15].

Summing up the above mentioned, it could be concluded that the business environment is identical to the concept of business climate as it assumes an external environment of enterprises and organizations of both the business and non-business sectors. At the same time, these concepts considered in parallel, are different from the category of "business environment", which combines both external and internal environment of businesses operation [9, p. 31]. Moreover, a set of conditions and factors of the business environment will be determined mainly by how much they affect the development of business in a particular region. Obviously, in the theoretical aspect, the use of the term "business environment" is the most correct. Obviously, this is why it is increasingly being used either in the foreign or Russian and Kazakh economic science [5, 6; 7; 8; 9, 10; eleven; 12].

In this regard, we may agree with the definition, according to which the business environment should be understood as an integrated set of different (objective and subjective) factors that allow entrepreneurs to succeed in achieving these goals, the implementation of business projects and contracts to produce a sufficient income (profit) [13, p. 5].

The concept of the business environment (business climate, business environment) appeared in the economic literature recently. Often the business climate and business environment are equated, understanding them as a set of conditions and factors that determine the potential for the development of entrepreneurship [14].

In the foreign economic literature, a number of researchers equate the business environment to the investment climate. So, J.D. Daniels and Lee. H. Radebe noted that TNCs have succeeded in "scanning business environment (environmental scanning) — a systematic evaluation of environmental conditions that may affect their operations" in the 70s-80s [15, p. 438].

J. Downes and G. Elliot determine the investment climate as "economic, financial and other conditions that affect the efficiency of investment" [16, p. 255].

Thus, the essence of the concept of "investment climate" is reduced to the concept of "business environment"—external conditions that shape the degree of riskiness of equity investments and the degree of attractiveness of investing in a particular object.

However, there are scientists who are differentiating the investigated categories. In particular, M. Moore and J. Schmitz from the Institute of Development Studies (IDS, University of Sussex) believe that the improvement of the business environment (or the business climate) assumes a reduction in the cost of doing business and improve the investment climate—reducing risks in capital investment [17 p. 22].

The term "business climate" is more frequently used in the Russian economic science, and it is used in relation to the regional level of business operation. Moreover, it is quite true, as the business climate can vary by territory. Therefore, a more objective and accurate is its assessment on the level of a particular region.

Most interpretations of the business climate of the region in the literature can be reduced to the definition, which considers this concept as common to all or the majority of entrepreneurs operating in a given territory, opportunities and business environment and the achievement of its goals [18].

The authors of this definition could not avoid the confusion between the "business environment" ("enterprise environment") and the "business climate" as well.

The review of existing approaches allows to allocate two basic differences between the concepts of "entrepreneurial climate" ("business climate") and the "enterprise environment" ("business environment").

Firstly, the business environment is objectively created opportunities for doing business in a particular area. While the business climate is a degree of influence of existing business environment to the comfort of doing business, or a barometer of its health under certain conditions. The business environment may be similar in some regions, i.e. a set of conditions and factors for doing business in the field of activity may be the same. Regarding the business climate, it can vary across regions, depending on the ratings of business entities themselves, which, as a rule, have subjective nature. And, as practice shows, more often the regions with relatively favorable business environment underestimate the scale of the business climate assessments. This is explained by higher demands and expectations of entrepreneurs.

Secondly, if the business environment is a set of external conditions and factors, then the business climate is assessed on the basis of business risks and costs that the entrepreneur can confront.

Thus, even though, there is an inextricable relationship, the business climate can not be regarded as identical to the concept of the business environment.

It should also be noted that the business climate (business environment) are sometimes considered as a synonymous with the concept of entrepreneurial climate in economic science. However, if one follows the previous methodological premise according to which the enterprise environment includes both external and internal environment, and the assessment of the business climate should include the study of a wide range of conditions and factors reflecting the business opportunities, including factors and internal conditions.

Based on the previous analysis, we can conclude that in the investigation of external conditions and business development factors, it is more correct to use the "business climate" category in scientific terms

As previously mentioned, nowadays, there is no single methodology for assessing the factors of the business environment, but of course, it must be adapted to the specific goals and objectives of the research.

### **The methodology of the business climate study**

After a review of the existing methods of research of the business climate, we have concluded that the most common method for collecting primary data on the business climate is a standardized personal interview with the respondent, who is familiar with the research subject. The business leaders and their deputies, chief accountants, as well as individual entrepreneurs can act as respondents. In particular, such a method of investigation used by the partner countries in the EAC—Russia (conditions index for the development of small and medium business "Support of Russia") and Belarus (Centre

co-sociological and political studies at the Belarusian sovereigns-versity, which is commissioned by the International Finance Corporation (IFC) that holds an annual primary data collection for IP-adherence to fair business environment).

Must be said that there was no single methodology for the evaluation and comparison of conditions for SME development in the regions for a long time in Kazakhstan, and existing tools did not allow an objective assessment of the business climate. Therefore, the leaders and officials of the competent authorities on implementation state policy for SME development, particularly at local levels, could not carry out a comprehensive assessment of the business climate and the effectiveness of existing government programs. Moreover, the leaders of the country's private enterprises did not have tools to assess the effectiveness of implemented government policies to support SMEs, which could reflect their views on the factors and conditions for doing business in some regions.

In 2012, at the expanded meeting on the development of entrepreneurship, the President of the Republic of Kazakhstan N.A. Nazarbayev indicated the need for the introduction of an independent rating of "business climate", which should reflect the real situation of the business climate in the regions of Kazakhstan.

In 2012, JSC "Economic Research Institute" of the Ministry of Economy and Budget Planning of the Republic of Kazakhstan on the order of the Committee of Entrepreneurship Development of the Ministry of Regional Development has developed a methodology of assessment and comparison of conditions for the development of small and medium business in the Kazakhstan regions" (Business Climate). In 2013, the first study of the business environment has been carried out in the regions.

It should be emphasized that in this study, only the external conditions and factors affecting the operation of the business have been assessed; therefore, the category of "business climate" was used.

Preparing the methodology of the "Business Climate" an international experience and the drawing up of ratings, and firstly, the rating of "Support of Russia" were taken into account. The latest one took into account five factors: real estate and infrastructure, human resources, financial resources, administrative climate and security, and suppliers system.

On the basis of an earlier focus group, the questionnaire "Business environment" has also included five key factors from the standpoint of SME representatives: 1) the financial resources, 2) administrative regulation, 3) human resources, 4) the state support, 5) real estate and infrastructure.

The purpose of this study was to study the SMEs active subjects opinion on the factors and conditions for the development of small and medium-sized businesses in the interrogated region.

1300 respondents in 16 regions of Kazakhstan were interviewed via survey under the project. Only the owners or managers of companies could participate in the survey<sup>2</sup>. On the basis of the data collected, the integral index of "business climate" based on the regions was calculated.

### **Analysis of the conditions and factors of development of SMEs in the regions of Kazakhstan**

Despite the fact that Kazakhstan has achieved improvements in the direction of "Getting Credit" according to the survey "Doing Business" in 2013, the low availability of financial resources remains one of the key problems of Kazakhstan's small and medium-sized businesses. The research has included an analysis of the problems encountered by entrepreneurs in obtaining financing from the following sources: bank loans, micro-credit, private investment, foreign investment, and grants. Besides, the problems that managers face in obtaining financing were discussed as well.

In recent years, the Republic of Kazakhstan has undertaken a number of reforms in the sphere of business regulation and licensing system aimed at improving the business climate and the elimination of unnecessary administrative barriers, including to reduce the burden associated with licensing and permits. Thus, from 1436 permits 699 abbreviated and currently 737 of them left. Reduction permits almost doubled protecting of the business structure against bureaucratic abuse and corruption, and generally makes the licensing system of Kazakhstan progressive<sup>3</sup>.

<sup>2</sup> Promezhutochnyy otchyot AO «Institut ekonomicheskikh issledovaniy» MEBP Respubliki Kazakhstan «Vnedrenie nezavisimogo reitinga «Delovoi klimat» [Interim report of AO Institute of Economic Research of MEBP of the Republic of Kazakhstan "Introduction of an independent rating "Business climate"]. (2013). Astana.

<sup>3</sup> Promezhutochnyy otchyot AO «Institut ekonomicheskikh issledovaniy» MEBP Respubliki Kazakhstan «Issledovanie voprosov povysheniya effektivnosti gosudarstvennogo regulirovaniya predprinimatelskoy deyatel'nosti» [Interim report of AO Institute of Economic Research of MEBP of the Republic of Kazakhstan "Research of enhancing the efficiency of the business activity state regulation efficiency"]. (2013). Astana.



However, despite this, the severity of the administrative burden remains constraint for the development of entrepreneurship in the country. This is confirmed by the studies of the International Fund "Transparency International", in which Kazakhstan takes 126 place among 175 countries of the world in the ranking of "corruption perceptions index" at the end of 2014.

Despite the ongoing reforms in the licensing system has the following problems:

- preservation of over-regulation of economic activity, a large number of permits for a constant effort of state agencies to increase them;
- discrepancy of methods of state regulation of entrepreneurial activity danger degree;
- complex and non-transparent licensing procedures that create additional administrative barriers to business.

Special problems for SMEs are concentrated in Kazakhstan's shortage of skilled labor. The inconsistency of supply and demand is observed on the labor market. This applies to both skilled and workers in different fields.

The importance of the factor "State support" has been caused by the fact that small business in Kazakhstan has appeared more distant from the state in enterprise policy in comparison with big business, and existing support instruments at the regional level were not always effective, especially for rural SMEs. Currently, there are 175 types of state support of small and medium-sized businesses in Kazakhstan, but not all of them are effective.

When analyzing the factor "Properties and Infrastructure", the existence and availability of real estate for SME development in the regions, the development of infrastructure was taken into account.

As previously mentioned, due to the specific socio-economic development of the regions of the country, differences in the structure of their economy as well as the uneven distribution of population, the SME sector in the regions of Kazakhstan also developed unevenly.

As a rule, ranking regions by the share of active SMEs shows that the higher a total number of registered subjects of small and medium business, the best conditions for a stable business set up in the region. The share of active SME is calculated as the ratio of the number of active small and medium-sized businesses to the total number of registered SMEs. The highest values for this indicator as of 2013 had Aktyubinskaya (69 %), Mangistauskaya (66 %) regions, Almaty (65 %), Karaganda (65 %), Pavlodar (63 %), West Kazakhstan (63 %), North Kazakhstan (63 %), Kostanai (63 %), Atyrau (63 %), South Kazakhstan (59 %), East Kazakhstan (57 %) regions. Below average republican value (55 %) share of active SMEs was in 5 regions: Zhambyl (53 %), Kyzylorda (53 %), Akmola (52 %), Astana (51 %), Almaty region (43 %) <sup>4</sup>.

In the structure of active SMEs by the organizational and legal forms in 2013, the largest share was observed in Almaty (23 %) and in the South Kazakhstan region (10 %). Less than 3 % are SMEs of Zhambyl (2.4 %) and West Kazakhstan (2.8 %) regions.

The level of the development of SMEs in the regions is affected by the number of economically active population. The largest number of active SMEs per 1 000 inhabitants of the economically active population in 2013 was observed in the cities of Almaty and Astana (80 and 74 units each), Atyrau (57 pcs.) and Mangistau (55 pcs.) areas. The lowest concentration of SMEs, as in the previous year, was observed in Kyzylorda (37 pcs.), Zhambyl (41 pcs.) and North Kazakhstan (45 pcs.) areas.

The total number of people employed in SMEs in the recent years was reduced by the end of 2013 and totaled 2,576,899 persons, which is 3.6 % lower than in 2012. The distribution of the population employed in SMEs by region is uneven. The largest share of the employed population in 2013, as in 2012, was observed in Almaty SMEs (16 %), South Kazakhstan (10.3 %), Almaty (9.5 %) and East Kazakhstan (8,6 %) areas. The smallest number of employees in SMEs, as well as in previous years, was observed in Kyzylorda (2.7 %), Mangistau (3.2 %) and Atyrau (3.4 %) regions.

Thus, the uneven regional distribution of active small and medium-sized businesses testifies the differences in the existing local conditions for doing business, which further actualizes the problem of an objective assessment of the current business climate in the regions of Kazakhstan, especially in light of the increasing effectiveness of the implementation of government support programs of SME development.

Based on the average (2.78), the regions were divided into three categories: the "Leaders"—2 region, "average"—7 regions and "lagging"—7 regions (see Table 1).

<sup>4</sup> Maloye i sredneye predprinimatelstvo v Respublike Kazakhstan [Small and medium business in the Republic of Kazakhstan]. Statisticheskii sbornik [Statistical book]. (2014). Astana, 94. Astana, 2014, 94.

Table 1

**Overall rating of Kazakhstan's regions by the level of conditions and factors of development of SMEs in 2013**

№	Region	Index	Category
1	Pavlodar region	2,96	“Leaders
2	Zhambyl region	2,96	
3	North-Kazakhstan region	2,95	"Average" (above average)
4	Mangistau region	2,94	
5	Kostanay region	2,92	
6	Aktyubinskaya region	2,91	
7	Akmolinskaya region	2,85	
8	Almaty	2,85	
9	East Kazakhstan region	2,81	
10	Karaganda region	2,78	
11	Astana	2,74	"Lagging" (below average)
12	Atyrau region	2,69	
13	West Kazakhstan region	2,63	
14	South Kazakhstan region	2,55	
15	Almaty region	2,55	
16	Kyzylorda region	2,41	

Source: compiled by the author according to the Interim Report of JSC "Economic Research Institute" of the Ministry of Economy and Budget Planning of the Republic of Kazakhstan "The introduction of an independent rating of" business climate ". Astana, 2013.

Table 2

**The relationship between the activity of SMEs and the rating of Kazakhstan regions in terms of the conditions and factors of development of SMEs in 2013**

№	Region	Index	Activity share of SMEs, %
1	Pavlodar region	2,96	63
2	Zhambyl region	2,96	53
3	North-Kazakhstan region	2,95	63
4	Mangistau region	2,94	66
5	Kostanay region	2,92	63
6	Aktyubinskaya region	2,91	69
7	Akmolinskaya region	2,85	52
8	Almaty	2,85	65
9	East Kazakhstan region	2,81	57
10	Karaganda region	2,78	65
11	Astana	2,74	51
12	Atyrau region	2,69	63
13	West Kazakhstan region	2,63	63
14	South Kazakhstan region	2,55	59
15	Almaty region	2,55	43
16	Kyzylorda region	2,41	53

Source: compiled by the author according to the Interim Report of JSC "Economic Research Institute" of the Ministry of Economy and Budget Planning of the Republic of Kazakhstan "The introduction of an independent rating of" business climate". Astana, 2013 and the statistical compilation "Small and medium enterprises in the Republic of Kazakhstan." Astana, 2014, 94.

Table 3

**The index values for financial resources factors (RF), administrative regulation (AR), human resources (HR), state support (SS), real estate and infrastructure (REI)**

№	Regions	RF	AR	HR	SS	REI
1	Pavlodar region	2,57	3,61	3,12	2,77	3,08
2	Zhambyl region	2,64	3,87	3,08	2,35	3,08
3	North-Kazakhstan region	2,47	3,91	2,99	2,57	3,15
4	Mangistau region	2,61	3,08	3,08	2,23	2,98
5	Kostanay region	2,40	3,89	3,06	2,37	3,11
6	Aktyubinskaya region	2,31	3,46	3,11	2,52	3,25
7	Akmolinskaya region	2,21	3,80	3,17	2,47	3,06
8	Almaty	2,48	3,42	3,06	2,40	3,15
9	East Kazakhstan region	2,49	3,31	3,05	2,69	2,79
10	Karaganda region	2,43	3,32	3,06	2,55	2,98
11	Astana	2,46	3,10	2,98	2,19	3,07
12	Atyrau region	2,29	3,25	3,08	2,19	3,07
13	West Kazakhstan region	2,06	3,64	2,92	2,36	2,62
14	South Kazakhstan region	1,93	3,19	2,90	2,48	2,47
15	Almaty region	2,13	3,22	2,77	2,08	2,64
16	Kyzylorda region	1,73	2,84	2,78	2,18	2,71

Source: compiled by the author according to the Interim Report of JSC "Economic Research Institute" of the Ministry of Economy and Budget Planning of the Republic of Kazakhstan "The introduction of an independent rating of "business climate". Astana, 2013.

In general, these results are, with rare exception, confirm the existence of a direct link between the established regional business climate and quantitative indicators of SMEs active in the field.

Thus, out of 10 regions, occupying the positions of "leaders" and "average" in Table 2, the share of active SMEs was higher or at the national average level in 8 regions: Aktobe, Mangistau regions, Almaty, Karaganda, Pavlodar, North Kazakhstan, Kostanay, East Kazakhstan regions. At the end of the rating, there were the regions where the rate of active SMEs in the total number of registered small and medium-sized enterprises is lower than the average value. It is Almaty and Kyzylorda regions. The only exceptions are three regions: Atyrau, West Kazakhstan and South Kazakhstan region, which occupy the bottom of the rankings, with the rate of activity of SMEs above average.

The low value of the integral index "business climate" in the cities of republican significance Almaty and Astana can be explained by more demanding entrepreneurs in business conditions. Besides Almaty is the country's largest business center differ by higher levels of competition including for financial and human resources.

From Table 2 it can be seen that the lowest values of these indexes among all cities surveyed, observed by the factor of "state support" (2.40 in Almaty and Astana 2.19), slightly higher performance "Financial resources" factors ( 2.48 in Almaty and in Astana 2.46) and "Human resources" (3.06 in Almaty and in Astana 2.98).

It should be noted that a similar situation with the southern and northern capitals is observed in the Russian rating of "Support of Russia", in which they occupy a lower place. Experts explain the low indexes values of Moscow and St. Petersburg cities by the overall level of competition and the high expectations of business. The most key problems of SME development in the regions of the Russian Federation are shortage of personnel and low availability of financial resources.

Generally, across all 16 regions of Kazakhstan, as it is seen from Table 3, the lowest index values (below 3.0) were formed on the factors "financial resources" and "State support". According to the respondents, the availability of financial resources and public support largely hinder the development of SMEs in the regions.

Among the surveyed regions the highest value of the index by a factor of "Financial resources" have Zhambyl (2.64) and Mangistau regions (2.61), the lowest — Kyzylorda region (1.73).

The surveyed SMEs in lagging regions noted the practical non-availability of financial resources. In particular, in the Kyzylorda region, all respondents expressed complete unavailability of grants and

foreign investment. The situation with bank loans availability is very poor. Only 2.3 % of respondents say that the loans available from commercial banks, 4.5 % gave a conservative estimate and the remaining claim of loans unavailability.

The most difficult situation with the provision of financial resources is observed at rural entrepreneurs. Suffice acute problem with the credits for rural SMEs in connection with a low estimate of property, refusal to take in pledge technique and rural properties. Cases of the reluctance of banks and evaluators to engage with rural districts, located at a large distance from the regional center.

According to the factor of "State support" the highest value indices have Pavlodar (2.77) and East Kazakhstan regions (2.69), the lowest—Almaty (2.08), Kyzylorda (2.18), Atyrau (2.19) regions and Astana (2.19).

The research has shown that many of the programs of the state support of entrepreneurs remain outside the field of the view of small and medium-sized businesses. Even the most popular program in Kazakhstan "Business Road Map—2020" has been either heard of or took part in by every second company. As for other programs "Productivity—2020", "territorial development program", sectoral programs, the majority of respondents are simply not informed. This is most clearly confirmed by survey respondents in the capital—Astana: 91 % of businesses do not know about sectoral programs, 65.7 % does not know about "Programme for development of territories", and 61.2 % do not know about "Productivity—2020".

The degree of awareness of rural entrepreneurs about ongoing government programs is even lower than that of the capital of SMEs. In this regard, the development of SMEs in rural areas targeted tools of state support are needed.

The highest index values (more than 3.0) are observed in regions of the country by a factor of "Administrative regulation". Obviously, this can be linked with ongoing activities in recent years on reducing the tax burden, carrying out legalization of property and assets, the simplification of administrative procedures and authorizations.

In particular, the result of 2010 the number of inventory permits for the business year reduced by 30 % by the principle of "guillotine". Document turnover in this area has decreased in 2013 by nearly 2 million units. The issuance of licenses transferred to into electronic format, automated delivery of 80 the most popular permits. Introduced a three-year ban on inspections of newly registered small businesses<sup>5</sup>.

Also in 2010, Kazakhstan began reforms to simplify the creation enterprises. As a result, documentation requirements have been simplified, and requirements for registration in the local tax authorities have been canceled. In 2011, Kazakhstan reduced the requirements for starting a business by reducing the minimum requirements for the authorized capital up to 100 tenge (\$ 0.70), eliminating the need to have notarized founding agreement and the Charter of the of the Company. In 2013, Kazakhstan eliminated the requirement of the payment of the minimum capital for 3 months after registration.

However, there are still problems with the corrupt government agencies, the existence of problems in the interaction with the customs and tax authorities, high tariffs for services of natural monopolies, the duplication of procedures for certification and accreditation, and others.

Thus, in Kyzylorda region 49 % of SMEs have given a negative assessment of the impact of government agencies on the business activities, in Astana, the problems in the interaction with the tax authorities have been noted by more than 30 % of respondents. In South Kazakhstan region, the negative assessment of the impact of the tariffs of natural monopolies in the maintenance and business development have been given by 70 % of respondents, Atyrau region—by 51.5 % of respondents.

In some regions, respondents noted the imperfections of public procurement procedures, in particular, the possibility of collusion. There were cases where participants of tenders offered amount estimated by experts as the minimum, but some companies have won tenders with a significantly smaller amounts.

In the field of human resources, surveyed respondents cited the urgent need for qualified engineers and technicians, lower professional training (mismatch of competencies and skills of graduates to the

<sup>5</sup> Promezhutochnyy otchyot AO «Institut ekonomicheskikh issledovaniy» MEBP Respubliki Kazakhstan «Issledovanie voprosov povysheniya effektivnosti gosudarstvennogo regulirovaniya predprinimatelskoy deyatel'nosti» [Interim report of AO Institute of Economic Research of MEBP of the Republic of Kazakhstan "Research of enhancing the efficiency of the business activity state regulation efficiency"]. (2013). Astana.



labor market), as well as the low availability of training courses for skilled workers and professionals of non-production divisions (high cost, a limited number of places on the courses free of charge). In particular, such a "lagging" regions as West Kazakhstan region, the urgent need for highly qualified engineers and technicians noted 52.6 % of respondents, skilled workers 38.5 % of respondents. The negative assessment of the availability of training courses for skilled workers and professionals of non-production departments gave 66.2 % of entrepreneurs. In the Almaty region, the high availability of skilled engineers and workers called 41.5 %, poor availability of training courses for workers — 41.5 % of respondents. In the Kyzylorda region, the shortage of qualified engineers and technicians, experts of the non-production units noted more than 30 % of the surveyed SMEs.

As a deterrent factor, the research showed an unavailability of property, infrastructure, in the particular road; the high cost of the land lease; lack of production and storage facilities; the poor state of transport and logistics and engineering infrastructure, which leads to premature wear of the equipment and an increase in depreciation expenses. The lowest index values for this factor have the regions facing the bottom of the rankings: South Kazakhstan (2.47), West Kazakhstan (2.62), Almaty (2.64) and Kyzylorda (2.71) regions.

With regard to the availability of real estate, the most negative assessment is characteristic for the Kyzylorda region: it was given by 84.8 % of respondents. In other regions, the situation with the availability of real estate is not much better: its evaluation ranges from 60 % in the West Kazakhstan region to 63 % in the Almaty region. The quality of transport and logistics infrastructure is estimated higher. For example, in the West Kazakhstan region, the quality of transport infrastructure negatively estimated by 32.9 % of respondents and logistics infrastructure — 29.2 % of respondents. In the Almaty region, third of respondents (27.5 %) negatively evaluated the quality of logistics infrastructure, a little more than fifth (22.4 %) — transport infrastructure.

Therefore, the most crucial problems of SME development in Kazakhstan are the low availability of financial resources and low efficiency of the implementation of instruments of state support of entrepreneurship at the regional level. The latter is largely explained by the absence of a modern individual law on small and medium-sized businesses in Kazakhstan. As a result it has appeared more distant from the state policy in comparison to big business.

Meanwhile, the analysis of the legislation of the Customs Union member states — the Russian Federation and the Republic of Belarus shows that there are special laws dedicated to the support of the state not only small, but also medium-sized businesses in these countries.

Thus, the Russian Federation back in 2007 adopted the Federal Law of the Russian Federation "On the Development of Small and Medium Enterprises in the Russian Federation." In Belarus, the Law "On Support of Small and Medium Enterprises" was adopted in 2010.

The presence of special laws to support small and medium-sized businesses is typical for other CIS countries, not to mention the industrialized countries. In particular, in the Republic of Armenia in 2000, it was adopted Law "On State Support of Small and Medium Enterprises". In 2012, the Law "On the Development and State Support of Small and Medium Enterprises" was adopted in Ukraine.

The priority of state support in these countries at the legislative level is made towards the development of not only small, but also medium-sized businesses.

### **The main directions of improvement of the business climate in the regions of Kazakhstan**

Issues affecting the development of SMEs in Kazakhstan requires for their decision to implement a set of measures at both the national and local levels of government.

1. Due to the fact that rural entrepreneurs note the lack of financial resources for business development, as well as exhibit low awareness on credit and micro-credit programs through "KazAgro" for the development of SMEs in rural areas, the certain programs should be implemented:

- to impose targeted support tools, for example, use unsecured micro-credit created by currently microcredit fund for rural entrepreneurs, subsidizing interest rates on micro entrepreneurs and microfinance institutions to guarantee loans to second-tier banks;

- improving the legal and financial literacy of entrepreneurs through joint work of local executive bodies, business associations and institutions of business development, in particular, the National Chamber of Entrepreneurs, Entrepreneurship Development Fund "Damu";

- provide essential measures to support start-ups, (a grace period of 2 to 5 years to repay the borrowed funds, depending on the type of activity, easy loan processing mechanism, and others).

2. Distribution of education centers to improve the business culture of SMEs, business clinics in rural areas, single-industry towns and small cities on the basis of the branches of "Damu" Fund, Enterprise Development Centres, Business Incubators.

3. Reform of the legislation regulating the activities of natural monopolies in respect of SMEs in the direction of cheaper tariffs, which will increase the potential for the competitiveness of domestic business in the conditions of the EAC. Enter a differentiated approach to setting tariffs depending on the type of business entity, namely for small businesses to apply a reduction factor.

4. Revitalization of the local executive authorities in order to establish feedback with the representatives of SMEs, in particular through websites, to increase their awareness, provide them with real assistance in solving problems.

5. Extensive use of marketing tools to promote public support for entrepreneurship programs by strengthening cooperation between local authorities and the regional branches of the National Chamber of Entrepreneurs, JSC "Fund" Damu "Entrepreneurship Development Centers.

6. Ensuring accurate records and analyzes changes in the number of small, medium and large businesses in the regions to make better and informed management decisions, carrying out targeted support for SMEs by local executive authorities.

7. Further improvement of the licensing system, the establishment of barriers to the introduction of new permits unreasonable for SMEs.

8. Reducing the number of SME inspections, avoidance of duplication of supervisory functions of state bodies.

9. In order to ensure transparency of public procurement inclusion in tender committees of observers from the regional offices of the National Chamber of Entrepreneurs.

10. Involvement of international trade advisers for small and medium-sized enterprises to develop business competence and business skills, expanding business ties.

To form favorable business climate in Kazakhstan, the system needs to move from a policy of "identify and punish unscrupulous businessmen" to the policy of "prevention of violations and the promotion of fair business." At the legislative level, the supervisory activities of the regulatory state agencies are reformed by moving from scheduled inspections to the organization on the basis of risk assessment tests through appropriate regulations in each area. As for the state support of small and medium-sized businesses, it should be available to all and be provided faster, be both automated and impersonal. Therefore, now it these services are transferring to the e-government category. Finally, the regional development programs have to be synchronized with the state programs to support small and medium-sized businesses.

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